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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 21, 2006

TO: Mayor Michael D. Antonovich  
Supervisor Gloria Molina  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **REPORT ON INTERIM FINANCIAL MANAGEMENT SERVICES  
PROVIDED TO THE LOS ANGELES HOMELESS SERVICES  
AUTHORITY**

Attached is a report on the interim financial management services provided to the Los Angeles Homeless Services Authority (LAHSA). The services were designed to provide LAHSA with on-site financial leadership during an interim period while LAHSA recruits and places a permanent CFO. The interim management services also included developing effective controls, policies and procedures to support the financial management and reporting requirements of LAHSA. The report details the work performed, project accomplishments, and recommendations for improving/enhancing LAHSA's fiscal operations. The work was performed by blueConsulting, Inc., under contract with the Auditor-Controller's Office.

LAHSA has hired a permanent CFO who is scheduled to begin on April 3, 2006. In addition, we are in the process of extending our contract with blueConsulting through June 30, 2006, to provide an adequate transition period for the permanent CFO.

**Board of Supervisors**

**March 21, 2006**

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Please call me if you have any questions, or your staff may contact Terri Kasman at (626) 293-1121.

JTM:MMO:TK

H:\BOS Transmittal of blueConsulting Report

c: David E. Janssen, Chief Administrative Officer  
Raymond G. Fortner, County Counsel  
Bryce Yokomizo, Director, Department of Public Social Services  
Carlos Jackson, Executive Director, Community Development Commission  
Cynthia D. Banks, Interim Director, Community and Senior Services  
Los Angeles County Audit Committee  
Honorable Antonio R. Villaraigosa, Mayor, City of Los Angeles  
Robert Ovrom, Deputy Mayor for Housing and Economic Development  
Mitchell Netburn, Executive Director, LAHSA  
William G. Vasquez, Director, Office of Community Planning and Development,  
U.S. Department of Housing and Urban Development  
LAHSA Commissioners



a clear perspective

March 21, 2006

Mr. Tyler McCauley  
Auditor-Controller  
County of Los Angeles

Re: Report on Work Performed At The Los Angeles Homeless Services Authority

Dear Mr. McCauley:

Pursuant to our work agreement between the Auditor-Controller, County of Los Angeles and Blue Consulting, we are providing this executive summary and following detailed report of the work performed, project accomplishments, and recommendations for the Los Angeles Homeless Services Authority.

**Executive Summary:**

Blue Consulting provided interim fiscal management to the Los Angeles Homeless Services Authority (LAHSA) from October 13, 2005 continuing through March 31, 2006. The scope of the project, briefly, included the following:

- Function as interim Chief Financial Officer, providing leadership, management, and training to a fiscal staff of seven;
- Coordinate and manage the fiscal operations relative to the management of the Department of Housing and Urban Development Supportive Housing Program grant administration, Emergency Shelter Grant and Community Development Block Grant funds provided through the County of Los Angeles Community Development Commission and the Los Angeles City Housing Department;
- Assess, revise and implement fiscal operations policies and operating procedures, including cash receipts, cash disbursements, cash requests from funding agencies, and invoice processing;
- Coordinate closing the books and records for the fiscal years ending June 30, 2004 and June 30, 2005 to facilitate audit by external auditors

During the course of the project, we accomplished the following objectives:

- Established mechanisms to:
  - Prevent commingling of grant funds in the pooled cash account,
  - Ensure proper allocation of administrative costs,
  - Ensure contractor's invoices are promptly processed,

- Ensure the claiming of funds from funding sources are prepared timely, accurately and are properly documented,
  - Ensure contractor/subcontractor invoices are paid when funds are received from granting agencies on a timely basis,
  - Reduce errors in posting of invoices to grant accounts,
- Corrected the Sage MIP accounting system database re-enabling system functionality around financial statement and report processing, and updated system tables to support accurate reporting by grant;
- Streamlined key fiscal processes, increasing efficiency and accuracy, including:
  - Automating the payroll process and reducing payroll processing time from over one week to three days,
  - Creating templates and processing calendars to facilitate the preparation of cash requests to funding agencies, reducing the time required to process the nineteen Los Angeles City Housing Department (LAHD) monthly cash requests from three weeks to three days while ensuring providers who submit invoices on a timely basis are paid within 30 days;
- Enhanced and implemented numerous policies and procedures, including
  - Accounts Payable,
  - Cash Disbursements,
  - Cash Drawdown County CDC,
  - Cash Drawdown LA City ESG, CDBG, and General Funds (LAHD),
  - Cash Drawdown SHP,
  - Cash Receipts,
  - Cash Reconciliation,
  - Expenditure Review and Reclassifications – Accounts Payable,
  - Interest Income,
  - Policy for Using County General Funds under Temporary Agreement, and
  - Winter Shelter Program Advances;
- Implemented bi-weekly training sessions for fiscal staff covering the following:
  - OMB A-122 rules and guidelines,
  - LAHSA internal fiscal policies and procedures,
  - Granting agency policies, requirements and guidelines,
  - Understanding and utilizing the SAGE MIP accounting system;
- Recruited, hired and trained four additional program accountant/auditor staff;
- Facilitated the closing of the accounting records for two fiscal years, fiscal years ending June 30, 2004 and June 30, 2005;
- Identified and corrected a significant number of posting errors occurring over the past two and one-half years, reconciling grants and contractor expenditures;

- Reduced potential LAHSA liabilities from over \$300,000 to approximately \$25,000 for unfunded contractor commitments;
- Developed policies and working procedures to support a line of credit/revolving fund to support LAHSA's short term cash flow requirements.

### **Recommendations:**

A summary of our more significant recommendations are as follows:

1. We recommend Los Angeles County and City provide LAHSA with access to a line of credit/revolving fund to support its short term cash flow needs. LAHSA's reliance on funding agencies to supply all cash required without access to some form of fungible cash to bridge short term cash flow requirements will likely result in LAHSA not meeting payroll or other essential cash requirements on a timely basis. Additionally, LAHSA is currently unable to expedite cash payments to fragile providers who provide essential services to homeless people until cash has been received by LAHSA from the funding agency. We believe a line of credit/revolving fund type arrangement providing immediate access to cash on a short term basis is essential for LAHSA's effective and efficient operations.
2. We recommend LAHSA reorganize its fiscal and contracts departments to provide for more coordinated administration and leadership.
  - a. Compliance activities such as fiscal and contracting should be organized under the CFO position;
  - b. A CFO with skills in administering both fiscal and contracts be retained as soon as possible;
  - c. A new position, Director of Finance should be established and recruited for immediately to add depth and capacity to the fiscal department. This position is viewed as essential to ensuring LAHSA's fiscal management remains effective; the existing workload exceeds the current organization's ability to manage. This position would be responsible for day to day activities in the fiscal department, freeing up the CFO to provide administration, executive management, leadership and direction of the combined departments;
  - d. Additional staff should be added to the fiscal department, including at a minimum a general ledger accountant and an administrative assistant.
3. Training programs should be developed for fiscal staff that include such topics as program compliance requirements, LAHSA policies and procedures, invoice review and processing procedures, contractor fiscal monitoring, and MIP Sage system applications.
4. Los Angeles City Housing Department Grant contracts should be segregated into individual grants in the general ledger. The current methodology results in additional

coding requirements, makes tracking cash receipts more difficult, and increases the possibility of errors in coding.

5. LAHSA should develop a centralized process for managing and following up on external agency monitoring reports to LAHSA, and integrate external monitoring report findings and recommendations into the LAHSA management process.

6. LAHSA should immediately conduct a risk assessment on all contractors and re-implement on-site fiscal monitoring activities.

6. We recommend that LAHSA expedite the completion of 100% source documentation reviews on Department of Housing and Urban Development Supportive Housing Program contractors. This can be accomplished through retaining outside consultants to assist LAHSA staff to achieve the one year of review requirements. The current 100% review requirement is extremely labor intensive and taxes not only LAHSA resources but its contractor's who are required to submit 100% source documentation as well. Once the risk assessment and reviews are completed, LAHSA's fiscal workload should be significantly reduced, resulting in faster processing of invoices and more rapid payments to providers.

7. We recommend the various funding agencies who provide grant funding to LAHSA continue to seek ways to streamline and make the cash request processes more effective and efficient. Current processes by the City involve significant redundancies in information provided, and County processes require LAHSA to convert its accrual basis accounting records to the cash basis. LAHSA's unique role as a pass through agency for funding should result in expedited processing, resulting in lower costs for processing at both the City and the County level. However, to achieve these efficiencies, existing requirements will need to be changed.

The following report and appendices details our findings and provides expanded information regarding our recommendations.

It has been a pleasure working with the County and City of Los Angeles, the Los Angeles Homeless Services Authority, and its funding agencies. If you have any questions or comments, please do not hesitate to contact me at 818-763-8826.

Sincerely,



G. Michael Arnold  
Project Manager

## **LAHSA Interim Management Report**

### **Background**

Blue Consulting was contacted by the Los Angeles County Auditor-Controller's Office regarding resources available to provide interim financial management to the Los Angeles Homeless Services Authority (LAHSA) in September 2005. LAHSA had lost their Chief Financial Officer, and was in the process of identifying and filling the position. However, a number of issues had been identified by both the City Controller's Office and by the LA County Auditor-Controller's office indicating that immediate financial leadership should be retained. After meeting with representatives of LAHSA, Los Angeles County, and Los Angeles City, Blue Consulting was selected to provide interim management to LAHSA.

Blue Consulting's project plan and approach to meeting the County and City's requirements included providing an interim Chief Financial Officer as well as a senior level financial manager, both with significant fund accounting, grant and contract management experience to serve as fiscal managers at LAHSA.

### **Project Objectives**

The objectives of the project include the following:

1. Gain understanding of existing transaction processing, including interfaces between departments
2. Gain understanding of Management Information System
3. Understand contract and grant arrangements with both funding sources and with subrecipients
4. Gain understanding of existing finance staff experience and capabilities
5. Assist in closing LAHSA's financial records for fiscal years ending June 30, 2004 and June 30, 2005
6. Assist in making adjusting entries resulting from analysis of grant revenues and expenses
7. Prepare LAHSA financial statements for FY 2004 and 2005, and assist LAHSA in preparing related claims to HUD
8. Establish mechanisms to
  - prevent commingling of grant funds
  - ensure proper allocation of administrative funds
  - ensure contractors/subcontractor invoices are processed on a timely basis
  - ensure the claiming of funds from funding sources are prepared timely, accurately, and are properly documented
  - prepare cash flow analysis

## **Findings and Recommendations**

The following are our summary findings and recommendations by each project objective.

### **1. Gain understanding of existing transaction processing, including interfaces between departments**

We spent considerable time understanding how transactions entered into the general ledger originated and the control mechanisms in place to ensure the general ledger maintained integrity as the books and records of LAHSA. Our findings by major process follow.

- a. Accounts payable transactions are comprised of two primary groups of expenditures – 1) expenditures on contractor invoices for program and related costs, and 2) expenditures for LAHSA operating costs, including direct program costs and general and administrative costs. The invoice processing procedures vary based on the funding agency requirements. These procedures range from a full review of detail documentation to support the amount invoiced for the Department of Housing and Urban Development Supportive Housing Program (HUD SHP) grants, to testing mathematical accuracy, verifying available budget balances, and general ledger coding and posting. For all subcontractor invoices, the expenditures are logged into a budget worksheet that ensures that the invoice, after review and adjustment, if appropriate, is within the approved budget by expenditure type or category. However, we noted a lack of review over invoice coding that resulted in posting errors of invoices to the general ledger. Further, we noted that no general ledger account analyses by grant were being completed resulting in a failure to correct posting errors on a timely basis. We identified posting errors that had occurred over 12 months prior that were, as of the start of our engagement, still uncorrected in the general ledger. This resulted in invoices accumulating in incorrect grants, and a failure by LAHSA accounting staff to draw down funds from agencies to pay for invoices.
- b. The role of the Contracts Department was unclear in the processing of contractor invoices. The invoices typically would go through the Contracts Department, be logged into their database, then manually transferred and manually logged into the fiscal department. In order to verify that the Contract Specialist had approved the invoice for processing, the Program Accountant would need to review the manual ‘transfer’ log and verify the invoice had been reviewed and approved for fiscal processing by the Contract Specialist. Additionally, the review performed by the Contract Specialist was unclear. No standard definition of the Contract Specialist’s role in the invoice review process existed. During the initial engagement, a standard definition and review objectives were developed and implemented at LAHSA to resolve this issue. Additionally, Contract Specialists now initial and date the certification page on contractor invoices to document their review has been completed and the invoice has been approved by them for processing (See Attachment A – Accounts Payable Policy).



- c. The invoice review processes followed by the accountant/auditor staff were not consistent. For example, some accountant/auditors would perform a detail review and reconciliation of supporting documentation to the invoiced amount while others would perform a more limited review and only vouch that supporting documentation equaled or exceeded claimed expenditures. Over the course of the past four months, the finance staff has met twice weekly for 'brown bag' educational lunches where invoice review issues were discussed and standardized. Invoices now follow a standard review process that verifies OMB A-122 requirements are met.
- d. General administrative expenditures are approved by the appropriate departmental director and provided to fiscal for processing. However, the authorizing director was uninformed as to the purpose of the review and approval and would submit inappropriate items for payment. For example, often statements were submitted as approved for payment. While fiscal staff would not process the statements as payables, no internal processes existed that would support proactively working with the Director to educate and help that individual understand the invoice review process and the differences between an invoice and a statement to prevent the error from occurring again.
- e. We noted where program costs that were directly administered by LAHSA staff were submitted as approved for payment without an approved funding source having been identified. Further, finance staff would process the invoice but fail to recognize that a funding source would need to be identified and, if appropriate, facilitate a budget modification to ensure the invoice could be billed to the funding agency. As a result, some program vendors waited excessively long times to receive payment for program services. During the course of the initial engagement, two new processes were introduced that dealt with this issue. The first was a funding matrix completed by the Contract Department that identified funding sources for each active contract, and funding sources for LAHSA administrative and program expenditures. This helped to illuminate expenditures without funding sources. Additionally, the Finance Department adopted the requirement that all program expenditures with invoices must have a funding source identified and approved by the funding source prior to processing the invoice as a payable. This ensures that if a budget modification from the funding agency is required to bill the expenditure, it is completed and approval for the expenditure is received prior to accepting the invoice for processing.
- f. Payroll processes allowed the detail posting of payroll expenditures to grants where work was performed consistent with OMB A-122 guidelines. However, much of the process was manual even though LAHSA utilized an outside sophisticated agency (ADP) to process payroll. During our engagement, we migrated LAHSA to on-line payroll entry, and reduced the payroll turnaround time from over one week to three days. Additionally, we standardized entries to provide a more effective audit trail for payroll expenditures.
- g. We noted that overall communications between the Finance and the Contracts Departments is poor. We observed each Department working semi-independently of the other without effective internal communications creating a 'silo' effect in within the Department. As a result, processing of budget modifications were

delayed, notification of contract amendments were not communicated to program accountants, and slow spending on contracts or budgetary issues identified by the program accountants were not communicated on a timely basis to the Contract Specialist. Additionally, there was confusion regarding contract responsibility resulting in poor follow-up and lack of problem resolution on contracts where invoices had been submitted but payment could not be made.

- h. The cash receipts process works well. All cash receipts are deposited, and the deposit entered into the general ledger. We noted only one exception; a deposit received in June 2005 had not been cleared out of the monthly bank reconciliation suspense listing by October 2005. We enhanced the cash receipts process by implementing a process to post cash receipts at the contract level on city and county program contracts. Cash receipts for HUD contracts were already being posted at the contract level.
- i. The cash requests processes were neither well documented nor efficient. The HUD SHP contracts are the most streamlined and efficient. Funding requests to the Los Angeles Housing Department (LAHD) are inefficient for not only LAHSA but also LAHD. The funding request forms are highly redundant, presenting the same information multiple times on several pages, requiring significant preparation time at LAHSA as well as significant review time at LAHD. Funding requests to the County Community Development Commission are inefficient and labor intensive because they require LAHSA to convert their accrual basis accounting records to the cash basis, and utilize an on-line system that doesn't recognize LAHSA's unique status as a pass through agency. Additionally each agency provides a once-per-month cash request process for grants administered by them that results in contractors who are unable to submit invoices by LAHSA's cutoff date to have to wait for up to 60 days for payment on invoices for services.
- j. Bank reconciliations are completed on a timely basis; however, suspense items are not routinely cleared in accordance with existing fiscal policies.
- k. Cash request processes were primarily completed by the CFO. We noted no policies, procedures or documentation for the correct processes for requesting cash from the various funding agencies. We have implemented a series of processes to regulate the cash request processes, developed a manual with specific instructions for filing cash requests with the various agencies, and reassigned personnel to manage the process.
- l. Contractor monitoring activities, excepting the review of HUD SHP program documentation are not being performed. Under existing agreements with funding agencies, fiscal monitoring is required. However, due to staff shortages and turnover in not only the CFO role but also the program accountant/auditor role, we noted no monitoring activities have occurred for some time.

#### **Recommendations:**

We attempted to address many of the findings concurrent with our work at LAHSA, developing a number of either new or expanded policies and procedures. In addition to

the policies and procedures developed, we recommend the following relative to strengthening the integrity of the general ledger:

1. LAHSA should add a general ledger analyst position to the Finance staffing budget. This is an individual who would perform detail reviews of each grants activity posted in the general ledger each month to identify posting errors and ensure their timely correction. Additionally, this position would be responsible for maintaining each grant account's integrity with regards to both cash receipts and expenditures posted.
2. The Finance and Contracts Administration functions should have a single senior executive responsible for both. Since both are heavily compliance related, we recommend that the departments both report to the Chief Financial Officer. This single reporting hierarchy will ensure that historical silos are dismantled, and will result in more effective communications and workflow processes. Ultimately this will result in better service to both the agencies funding services through LAHSA, and to the contractors providing such services.
3. LAHSA should develop training programs for program accountants/auditor positions. While significant progress has been made in standardizing the processes with existing staff, the risk that processes will change increases with each transition in the program accountant/auditor position. Standardized training materials should address the specific requirements of OMB A-122, the various granting agencies, and LAHSA's own policies and procedures providing tools, processes, and guidelines for ensuring the consistent processing of invoices for contractors. This training material, with some adaptation, could work well as a training module for contractors submitting invoices as well. Additionally, LAHSA should adopt some form of internal auditing protocols to periodically verify consistency and adequate training of the program accountants to quality and compliance in invoice processing.
4. The development of additional policies and procedures should be continued so all fiscal processes and procedures are addressed. While the fiscal manual currently in use by LAHSA is adequate if experienced accountants and senior financial management personnel are in place, it does not provide sufficient detail to serve as an effective guide for those not familiar with the organization. The development of specific policies and procedures provide much more specificity in defining the policy, and the procedures required in its implementation, and ensure consistency and clarity in completing fiscal processes.
5. While existing fiscal manual policies address this, we strongly recommend that LAHSA ensure that bank reconciliation suspense items should be cleared within 15 days of the preparation of the bank reconciliation.
6. We recommend that LAHSA, the Los Angeles Housing Department (LAHD), and the Los Angeles County Community Development Commission (CDC) explore ways to streamline and expedite the cash request processes for LAHSA. Streamlining these processes will not only reduce the administrative burden on LAHSA, but would also result in increased efficiencies at LAHD and CDC.
7. We recommend LAHSA immediately go through a risk assessment of contractors and re-institute fiscal monitoring activities starting with high-risk contractors.

Due to the large number of new program accountant/auditor staff members, this will require the development of training materials, the training of staff, and the review and modification of monitoring work plans.

## **2. Gain understanding of Management Information System**

LAHSA utilizes the Sage MIP Fund Accounting System. At the start of the project, LAHSA was utilizing version 5 of the system; version 7 was implemented in January 2006.

Overall, we found the system extremely robust and effective in meeting LAHSA's needs. The Sage MIP system has the capacity to track both cash and expenditures at the grant and the contract level. Proper use of the system can provide sufficient information about each grant to ensure that funds are kept separate and proper accounting for each grant and contract is maintained. However, LAHSA staff needs additional training to maximize the value of the system to LAHSA. Summaries of our more substantive findings are as follows:

- a. LAHSA finance staff has limited familiarity with utilizing the more sophisticated applications available with MIP. For example, very few of the finance staff utilized the robust reporting capabilities of the system including financial statements, combining financial statements, financial statements by period, or cash flow statements. During the project, we created a number of reports that enhance the day to day management of grants and the required processes, including the development of the key reports to support cash management, grant management, agency billing, and expenditure tracking.
- b. Certain key financial reports were unavailable to LAHSA staff as of the start of our work with LAHSA. During our review of the system, we noted that many of the management reports and financial statements were not available. After research, we determined that these reports were not available on the system, as accounting staff had utilized characters in contract codes that were not valid, and did not allow the system to correctly summarize and report on information. The system interprets certain characters in certain ways and as a result, specific characters should not be used in naming accounts, contracts or other user defined variables. During the course of our initial engagement, we worked with the software vendor to re-process the system database to remove prohibited characters. The process was successful and resulted in restoring full functionality to the system.
- c. LAHSA staff requires additional and on-going training in the maintenance of the software system. Initially, we were unable to generate accurate financial statements from the system because accounts had been set up but a full mapping into the general ledger system had not been completed. With appropriate training and education on the system, these issues would be resolved.

**Recommendations:**

1. LAHSA should develop a training program for LAHSA finance staff on the Sage MIP system. The training should address the fundamentals as well as more sophisticated uses and applications. A variety of on-line training is available to support this recommendation.
2. In future applications, LAHSA should see if MIP can provide reporting capabilities that convert grants from the accrual basis of accounting to the cash basis of accounting. The Los Angeles County Community Development Commission requires that LAHSA convert their expenditure reports from accrual to cash basis for purposes of requesting cash draws on contracts. This process requires significant manual effort on the part of LAHSA personnel that may be addressed by system enhancements in the future.
3. We recommend that LAHSA revise its methodology for accounting for grants from the City of Los Angeles. Prior to the transition of City funding to the Los Angeles Department of Housing, LAHSA had three contracts with the City. Each contract had a separate grant number. When the administrative oversight was transferred to the Los Angeles City Housing Department, the three contracts were divided into 19 separate contracts. For future funding cycles (April 2006 and forward), we recommend that LAHSA establish each contract as a separate grant. The current methodology for tracking both cash receipts and expenditures at the contract level involves utilizing an additional layer of coding (referred to as the 'billing code'). This additional layer of coding in the general ledger can be eliminated with the use of separate grant codes, and will reduce the likelihood of posting errors on the grants.

**3. Understand contract and grant arrangements with both funding sources and with subrecipients**

During the initial phases of the project, there was no central reference for both funding sources and subrecipients other than abbreviated summary schedules and far too detailed contract databases. However, at the request of the City of Los Angeles Housing Department prior to the start of our project, the Contracts Department began developing a funding matrix that provided a summary view of both the funding sources and the assignment of subrecipient contracts to the funding source. This worksheet, when completed, provided an ideal tool for understanding the relationships between contracts that have been executed with subrecipients and the funding sources used to satisfy the contracts.

- a. We noted that agency monitoring reports on LAHSA were not tracked or centrally managed. This resulted in poor follow-up on monitoring report findings and recommendations, a lack of assigned responsibility or coordination in planning and implementing recommendations, poor dissemination of information in external monitoring reports, and little staff awareness of prior monitoring report

findings. Additionally, we noted that responsibility for managing responses, communications on progress on implementing recommendations, and assignment of responsibilities was not adequate to ensure compliance with monitoring report findings and recommendations.

**Recommendations:**

1. We recommend LAHSA continue to develop the funding matrix each year, and to ensure the funding matrix is kept current with contract modifications and distributed to both Contract Specialists and Program Accountants as appropriate.
2. We recommend LAHSA develop a centralized management process for external agency monitoring reports. This management process should detail the findings and recommendations from monitoring reports by agency, inventorying the findings and recommendations, assigning responsibility for developing and implementing action plans to resolve the findings and/or implementing recommendations, disseminating information from monitoring reports to both contract and fiscal personnel, and tracking progress made on action plans and progress toward implementing recommendations. Additionally, we recommend that LAHSA management implement a quarterly status reporting on monitoring reports, action plans, and resolution of issues noted at its regular management meetings to ensure that senior staff are aware of the issues, the actions taken, and the resolutions to issues identified by external agencies.

**4. Gain understanding of existing finance staff experience and capabilities**

- a. The finance staff at LAHSA at the start of the project consisted of seven (7) full time and one (1) part time staff, comprised of the following positions:

- 2 managers
- 1 financial analyst
- 3 program accountant/auditors
- 1 accounts payable clerk
- 1 part-time analyst
- 8 total finance department staff

In addition, there were three and one-half full time equivalent (3.5 FTE) open positions, excluding CFO position, in the department based on the 2005-2006 budget personnel worksheets. The open positions consisted of two and one-half FTE (2.5) program accountant/auditor positions and one clerical position, for a total budgeted departmental staffing consisting of the following:

- 1 CFO
- 2 Managers
- 2 financial analysts
- 6 program accountant/auditors
- 1 administrative support
- 12 budgeted FTE

b. Experience of Existing Staff

Of seven existing staff, four (4) have been with LAHSA over one year; three (3) have been with LAHSA less than one year. Two (2) of the existing staff had been in program accountant/auditor roles, one was in the financial analyst role, and one was in the accounts payable clerk role. The three (3) staff members who had been with LAHSA for less than one year were all in program accountant/auditor positions.

Prior to June, 2005, most accounting staff had only limited experience with creating budgets, preparing cash draw requests from funding agencies, financial statement preparation, general ledger account reconciliations, year end closing and other finance functions key to maintaining integrity in the general ledger and managing cash balances. These staff members' primary duties were to process contractor and administrative and general expense invoices, monitoring expenditures on individual contracts, posting accounts payable, and some limited contract fiscal monitoring.

The loss of the CFO created significant 'capacity' gap, as the remaining staff were not familiar or experienced in cash management or general ledger management activities. This capacity gap quickly resulted in a domino effect as cash was not drawn from agencies on a timely basis, vendor invoices were not processed on a timely basis, and cash balances by grant were not monitored.

While the existing LAHSA finance staff are committed and hard working, all except two (2) are in new job positions and require additional training and experience to successfully complete their job requirements. As noted in a prior section, most have invoice processing experience but only limited experience in general ledger and cash management. The two managers should be recognized as stepping up and working to try to manage the fiscal processes after the departure of the CFO. However, neither had received training or coaching on the new position job requirements and both have worked very hard to become successful as managers. Both appear to have the capacity to be good managers, but will require training, mentoring and coaching to fully function at the manager level.

All program accountants/auditors are staff new to LAHSA within the last eight (8) months, two within the last one month. Again, they should be recognized as stepping up and working diligently to try to resolve the many issues in finance. Due to staffing shortages in the finance department, only one of them has participated in any formal training on the HUD SHP program, the Emergency Shelter Grant Program, or the Community Development Block Grant Program. While we have provided essential training both on the job and during twice weekly staff brown bag lunch sessions, formal training should be a part of each staff's orientation period as a new hire, and annual education should be planned to provide updates and education on new rules, regulations, policies and procedures.

In addition, only several of the staff have any experience with preparing and submitting cash requests to agencies on grant funding. While a key function, the CFO primarily handled this process in the past and only provided marginal training to existing staff on the various processes and requirements. We did not find any policies, procedures, training materials or instructions addressing the cash draw down processes for either the city ESG and CDBG funds, or the County ESG and CDBG funds.

In addition to a lack of adequate training, the existing workload required of the fiscal department exceeds its current capacity. The staffing levels (at the budget level) are inadequate to fully meet the funding agencies requirements of LAHSA. Fiscal staff at LAHSA has primarily been focused on the contract invoice processing and review functions. As a result, other key processes were centralized with the CFO and created significant capacity gaps when the CFO was not around, or in the recent case, left the organization. Additionally, the assignment of specific accountability for the various functional processes was not possible with the existing structure. While LAHSA has added new members to the fiscal department over the last two months, its ability to meet agency contractual requirements is still limited. Additionally, its ability to create accurate cash draw requests, monitor general ledger grant accounts, manage cash, and prepare financial statements is fragile. The current staffing is only able to prevent significant backlogs of invoices; the department has limited if any opportunity to perform fiscal monitoring visits to contractors or provide contractor training and education on fiscal management.

#### **Recommendations:**

1. LAHSA has grown into a complex organization with sophisticated accounting requirements. The role of CFO is critical to managing and maintaining the fiscal integrity of the organization, and as such, should only be filled by an experienced senior accounting professional. The individual should have strong accounting, general ledger, and fund accounting experience. We recommend that LAHSA fill this position as quickly as possible with an experienced financial manager with strong management and accounting skills. Additionally, we recommend that future hires in the department require strong basic skills in general ledger accounting, along with good analytical and problem solving skills.
2. The current workload and fiscal management requirements are overwhelming for existing LAHSA staff. Given the workload requirements, the need for ongoing training and development of existing staff, and the critical need to increase the experience and depth of LAHSA's fiscal functions, we believe the addition of a Director of Finance position to be essential to creating a sustainable fiscal management structure. As noted above, many of the more sophisticated accounting functions, including financial statement preparation, budget preparation and monitoring for administrative costs, cash requests, cash



management, period end closing and year-end closing were all handled directly by the CFO. A Director of Finance with strong general ledger and accounting theory and practice skills, and the ability and time to focus on managing day to day accounting functions will significantly strengthen the organization's fiscal capabilities, and provide additional strength and depth to the accounting department. We believe that LAHSA's ability to stay current on its fiscal management is contingent upon building a strong leadership team. The current capability gap in its fiscal department will not be resolved by the recruiting of a CFO; rather, it needs to rapidly add depth and expertise within its fiscal management ranks to ensure long-term sustainability in meeting fiscal department requirements. The Director of Accounting position can take over much of the day to day accounting management and processing requirements, allowing the CFO position to focus on building more coordination within the contracts and fiscal departments, assessing training and development needs of staff, developing training programs, monitoring contract and grant program compliance, administering monitoring activities, and participating more effectively at the senior management level of the organization.

3. The current department is understaffed at the program accountant/auditor position for the size and amount of processing and monitoring that is required. Since we began the interim management project, we have added four new staff members, three program accountants/auditors and one accountant. Since the workload is expected to diminish once HUD SHP contractors have been through a one-year 100% source documentation review, we recommend that the department reassess its staffing in 2 - 3 months to determine if the current staffing levels are adequate to manage the required work flow, including conducting appropriate levels of on-site fiscal monitoring.
4. We recommend LAHSA contract for temporary help to conduct full documentation reviews of HUD SHP contracts. HUD currently requires that every contract invoice be subject to a 100% source documentation review until one year's of invoices have been reviewed. This requirement creates significant workload for the program accountants/auditors and for LAHSA contractors. A focused effort to get through a year's invoices and, if appropriate, reducing the level of documentation required will significantly reduce the time required to process HUD SHP invoices, and will ultimately affect the number of program accountant/auditors needed to meet workload requirements.
5. We also recommend that LAHSA provide administrative support to the Finance Department. Currently, significant time is spent by accounting personnel performing clerical functions. The department could effectively utilize at least one full time administrative assistant to perform routine tasks like copying checks, filing paid invoices, creating a file retrieval system for older contracts, following up on correspondence issues, tracking monitoring schedules and the like.

5. We recommend LAHSA consider reorganizing its current fiscal structure to better distribute workloads and manage discrete processes. We have attached a recommended organizational structure for your review. We believe this structure provides better coordination and integration of key fiscal and contract management functions, addresses key capacity and skills issues, and will solve a number of communications issues observed.
- 5. Assist in closing LAHSA's financial records for fiscal years ending June 30, 2004 and June 30, 2005**
  - a. Fiscal years 2004 and 2005 have been closed and are pending audit by LAHSA's outside independent public accountants, Simpson and Simpson, LLP
- 6. Assist in making adjusting entries resulting from analysis of grant revenues and expenses**
  - a. We assisted in correcting posting errors and adjusting entries as appropriate. Our primary finding relative to this objective is that existing LAHSA staff have only limited training and experience in analyzing and adjusting grant accounts. Our recommendations are included in the Staffing section.
- 7. Prepare LAHSA financial statements for Fiscal Year 2004 and 2005, and assist LAHSA in preparing related claims to HUD**
  - a. June 30, 2004 and June 30, 2005 preliminary financial statements have been prepared and are awaiting audit.
- 8. Establish mechanisms to:**
  - a. Prevent Commingling of Funds**
  - b. Ensure proper allocation of administrative funds**
  - c. Ensure contractors/subcontractors invoices are processed on a timely basis**
  - d. Ensure claiming of funds from funding sources are prepared timely, accurately and are properly documented**
  - e. Prepare cash flow analysis**

These objectives have been met with the development of policies and procedures (see Attachment A), training of staff, the additional hiring of staff, and account analysis prepared on general ledger accounts.

The cash flow analysis is capable of being MIP system generated, but has only limited value to LAHSA as the cash request processes primarily drive cash flow.

**Findings:**

- a. LAHSA has an acute need to have access to a flexible, short-term source of funds to manage its cash flow requirements. Many of LAHSA's funding sources

provide a once-per-month opportunity to draw cash to pay for both subcontractor invoices and LAHSA administrative costs. Additionally, most of the funding agencies have imposed very stringent cash request requirements that can result in short term cash shortages in paying essential costs, including payroll, rent, and employee benefits when the cash requests are not processed on a timely basis, or expenditures by fund change unexpectedly. Additionally, if subcontractors are delayed in submitting invoices to LAHSA, or if LAHSA is delayed in processing submitted invoices, cash cannot be requested from the funding sources resulting in long delays for payment.

Since LAHSA is a pass through agency, it has no access to fungible cash balances that can be used to pay either essential operating costs, or provide timely payments on subcontractor invoices if the subcontractor is in need of immediate cash. This puts LAHSA in danger of either being unable to pay its payroll and related costs, as well as unable to assist a distressed contractor providing vital services to homeless people.

**Recommendations:**

1. We recommend that Los Angeles County and City provide LAHSA with access to funds that would be equivalent to a line of credit vehicle to meet its cash flow needs. The funds should be available to LAHSA with a minimum of notice, and function like a traditional line of credit where LAHSA can draw on the funds on demand. More details on this recommendation, including proposed authorization levels and policies for use is included in Attachment C. The implementation of this recommendation is critical to LAHSA's ability to operate smoothly on a monthly basis.

ATTACHMENT A

NEW OR REVISED POLICIES AND PROCEDURES



**Policy: Accounts Payable Policy – revised 2/06**

Submitted By : G. Michael Arnold, Interim CFO

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### **General:**

It is the policy of LAHSA to enter invoices from contractors into accounts payable on a timely basis. Invoices received will be reviewed by the assigned program accountant to ensure the invoice represents appropriate, accurate information, expenses claimed are included within the budget by category of expense, the budgeted amount has not been exceeded, and the provisions of OMB Circular A-122 are met

#### **Procedures:**

1. Invoices are received by reception, date stamped on the certification page of the invoice, and forwarded to the appropriate contract specialist.
2. The Contract Specialist will review the invoice for the following:
  - a. LAHSA reception has date stamped the date of receipt;
  - b. An executed contract exists
  - c. Invoices include all identifying information, including contract number, agency name, program name, if appropriate
  - d. Required insurance is in place
  - e. Certification signatures are appropriate for the contract
  - f. No contract conditions are known that would or should prevent payment

The Contract Specialist will initial and date the certification page of the invoice and forward the invoice to the appropriate program accountant.

3. The program accountant will stamp the received date on the invoice and review the invoice by:
  - a. Verify mathematical accuracy, correct extensions, footings, discounts, and other terms are appropriate and correct;
  - b. Verify the availability of adequate remaining budget funds by cost category to cover the invoice by posting the invoice to the contract budget and ensuring available budget balances;
  - c. Review the invoice for appropriate, allowable expenses and supporting documentation based on the requirements of the funding source (grant), following OMB A-122 guidelines;
  - d. Note corrections to the invoice in red pen;
  - e. Update the finance budget worksheet logging approved expenses (and cash match amounts when appropriate) for the contract;
  - f. Initial and date the processed invoice indicating approval for processing
  - g. Prepare a pre-numbered LAHSA Payment Requisition form which includes grant, account, program, agency and contract number posting information

## Accounts Payable Policy

- h. Submit the Payment Requisition form, invoice and supporting documentation for Accounting Manager, CFO and Deputy Director Approval
  - i. For SHP contracts, the Program Accountant will prepare a Request Voucher for Grant Payment for the Invoice Amount by Type of Funds Requested to support the Cash Drawdown procedures for SHP contracts, and initial and date the Request Voucher in blue or red ink to enable the SHP Grant Payment Associate accountant responsible for initiating the drawdown request to verify the Request Voucher is the original and not a copy. This step is to prevent potential double drawdowns on contract funds.
- 4. The Accounting Manager will review the Payment Requisition verifying the correct grant, account, program, agency and contract coding, review the expense worksheet for errors or issues, and if approved, initial the Payment Requisition and forward to the CFO for approval. Exceptions or issues noted during this review step will be resolved prior to forwarding the invoice, Payment Requisition, or Request Voucher (SHP) to the CFO for approval.
- 5. The CFO will review to ensure appropriate reviews have occurred and that both the Program Accountant and Accounting Manager have reviewed and initialed the Payment Requisition, verify budget availability, and initial and date the Payment Requisition (and the SHP Request Voucher, if appropriate) and forward to the Deputy Director and Executive Director for approval. (Note this step will change when the permanent CFO is in place )
- 6. The Deputy Director and Executive Director will review and approve the Payment Requisition verifying the appropriate grant is being charged and return to the Accounting Manager.
- 7. The Accounting Manager will verify all appropriate approvals have been received and return the Payment Requisition to the Program Accountant for posting. For SHP Payment Requisitions, the Requisition is provided to the SHP Grant Payment Associate. The SHP Grant Payment Associate will make a copy of the Request Voucher for Grant Payment and request the funds for electronic deposit in accordance with LAHSA policies and procedures (see SHP Grant Payment request policy and procedures).
- 8. The Program Accountant will enter the invoice information into the MIP accounting system, have the batch reviewed by a colleague, and after review and correction of data entry errors, post the entry.



**Policy: Cash Disbursements Policy – revised 2/06**

Submitted By : G. Michael Arnold, Interim CFO

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### General:

It is the Policy of LAHSA to only make disbursements by check (or approved Electronic Transfers), and payments are made only on approved, processed invoices and only from funds specifically designated for payment of that invoice. Additionally it is the policy of LAHSA to ensure that adequate cash balances exist in each grant sufficient to meet the cash obligations of each check run, and, if applicable, to ensure appropriate cash reserve's exist for future payroll and related requirements. This policy specifically prohibits the use of any grant fund's cash for expenditures not related to that grant fund and/or allowing any grant fund cash account to go into a deficit cash balance position.

#### Procedures:

1. Check Stock management includes the following:
  - a. Checks are pre-numbered and used in sequence
  - b. Blank check stock is kept in a locked, secure location
  - c. A LAHSA Accounting Analyst is specified as custodian for blank check stock.
2. Prior to a check run, the Senior Financial Manager prepares two Invoices Selected For Payment listings from the MIP Accounts Payable system identifying invoices selected for payment. One listing reflects the total cash requirements to pay the invoice by grant; the second listing is by agency showing the total payment to the agency. This enables the check run to be reconciled to the approved cash disbursements by grant and accommodates invoices that are funded from multiple sources. The listing by grant includes the grant code from which the funds are being drawn, the vendor/payee, the contract code for the payment, the invoice number, the due date, and the invoice amount, and the total cash required by grant. The listing by agency must tie to the listing by grant.
3. The Senior Financial Manager prepares a Check Run Summary form which includes the following information by grant;
  - a. Grant number;
  - b. Cash requirements by grant for the proposed check run;
  - c. Any required cash reserves to be maintained (payroll, etc );
  - d. Cash balance by grant as of current date;
  - e. Cash balance after check run and required reserves;
  - f. Total Cash in Bank Balance before check run
  - g. Total Cash in Bank after check run

The form is initialed and dated by the preparer, and support documentation including the Normal Trial Balance Cash Accounts by Grant report and the two Invoices Selected for Payment Listings are attached.

For purposes of determining the cash reserves required for payroll and related obligations, the preparer will take into account future anticipated payroll requirements and the dates when cash will be required and the dates that cash receipts are expected from funding agencies, ensuring that adequate cash balances are on hand to fund payroll and related requirements.

4. The Senior Financial Manager provides the Check Run Summary form to the CFO. The CFO reviews to ensure adequate cash requirements by grant agrees to the Invoices Selected for Payment listing, the current cash balance agrees to the current day cash account by grant, that cash reserves for payroll and related costs are appropriate, and that adequate cash balances are available to support the check run after considering payroll and related reserves have been met, and verifies the two Invoices Selected for Payment listing agree in total.

**Special Rules for Use of County General Funds pursuant to special agreement with County – January – March 2006:**

If funding is not available, but the expenditures meet the criteria for utilizing the line of credit (January 2006 county general fund), a due to/due from journal entry should accompany the check run; if adequate cash is not available and the payments do not meet the criteria for the line of credit (or use of County General Funds in January 2006), the Check Run Summary is not approved and the check run detail is returned to the Senior Financial Manager for revision. If funding is available in all grants to support the Check run, including cash reserves required for payroll and related costs, the check run is approved and returned to the Senior Financial Manager for processing.

5. The Senior Financial Manager edits the Accounts Payable Invoices selected for Payment listing to include only those invoices approved for payment, and authorizes the check run.
6. Checks are run and attached to the original invoice and submitted, along with a copy of the approved Accounts Payable Invoices Selected for Payment Listing to the CFO, Deputy Director and Executive Director for approval and signature.
7. The CFO verifies:
  - a. Checks are sequential and accounted for and reconcile to the approved Check Run Summary
  - b. Payments are being made only on authorized invoices
  - c. All payments included in the run are accounted for
8. The Deputy Director and Executive Director (or their designees) verify the payment is being charged to the appropriate grant and is supported by approved invoice(s), and sign the checks.
9. All checks are run using the MIP system and recorded in the Cash Disbursement Journal.
10. Voided and spoiled checks are mutilated (signature portion removed) and retained.
11. Invoices are properly cancelled with a "paid" stamp with check number noted to avoid duplicate payment.
12. Only individuals authorized sign checks and appropriate countersignatures are obtained in compliance with the LAHSA check-signing authorization level. (See Fiscal Manual Section 4 3.4)



### **Electronic Transfers**

Procedures for electronic transfers follow the above procedures to ensure adequate cash balances are maintained. Additionally, the electronic transfer form must be completed and authorized by the CFO and the Executive Director. All authorized electronic transfer forms are maintained in a central file by the CFO.

Los Angeles Homeless Services Authority  
 Check Run Summary  
 8-Dec-05

**SAMPLE**

Grant	Check Run Totals	Payroll Reserves	Total Cash Used	Available Cash Today	Available (Overdraft)
009	81,603.00	-	81,603.00	114,125.00	32,522.00
709	207,729.00	3,004.00	210,733.00	268,821.66	58,088.66
809	165,215.00	12,475.00	177,690.00	206,624.98	28,934.98
825	105,631.55	-	105,631.55	617,786.89	512,155.34
909	58,927.00	-	58,927.00	549,694.00	490,767.00
926	82,932.00	-	82,932.00	132,883.00	49,951.00
950	142,619.29	7,047.00	149,666.29	190,296.00	40,629.71
951	118,442.00	27,182.00	145,624.00	166,512.21	20,888.21

Totals 963,098.84 49,708.00 1,012,806.84

Cash In Bank 12/8/2005 2,473,902.89

Cash Balance after Check Run/PR 1,461,096.05

This col  
can NEVER  
be negative

Note: No check distribution is authorized that would place any grant in an cash deficit position, after considering payroll reserve requirements.

Attachments: Invoices Selected for Payment by Grant  
 Invoices Selected for Payment by Agency  
 Cash Balances by Grant

I have prepared the attached Invoices Selected For Payment report, and completed this schedule to validate adequate cash balances in accordance with LAHSA Cash Disbursements Policy and Procedures.

Preparer signature Date Prepared



**Policy: Cash Drawdown Policy County CDC– revised 2/06**

Submitted By : Stephen Andryszewski

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### **General:**

It is the Policy of LAHSA to drawdown cash receipts from funding sources on a timely basis to ensure timely payment of contractor invoices.

#### **Los Angeles County Community Development Commission (CDC) Billing**

1. The CDC has implemented an on-line billing procedure as of June 20, 2005. An electronic cash request submission is required for each active grant on a monthly basis. If no expenditures are incurred for a specific month, a request indicating 'No Activity' must still be submitted.
2. The CDC provides instructions on how to input data into the online system.
3. LAHSA currently uses four grant accounts to manage County CDC funding during 2005-2006.
  - a. 916 – CDBG Non-Profit Organization Capacity Building
  - b. 919 – ESG Administration
  - c. 920 – ESG Operations
  - d. 921 – ESG Essential Services
4. The cash requests are submitted to the CDC on a 'Cash Basis'. In order to adhere to this requirement, LAHSA must first manually adjust its books and records from the 'Accrual Basis' to the 'Cash Basis'.
5. After posting all prior month invoices, reports must be run and reviewed to identify and correct any posting errors prior to preparing the County cash requests for the month.

#### **Procedures:**

1. On or about day 20 of the month, the Billing Coordinator will begin to roll forward cash requests.
  - a. Access the CDC online system and create a new request for each grant
2. Review the Cash Receipts and Cash Disbursements for each grant to identify and capture any prior period adjustments to be reported in the current month. Use the MIP report
  1. Journal
    - a. Cash Journal
      - i. SA-Cash Journal
  - a. Set the period to the appropriate dates (note the start date for all CDC Contracts is 7/1/XX through 6/30/XX. Set the dates from 7/1/ current year to the month end or date for which the most recent cash report has been billed through.
  - b. Review to ensure that both deposits and disbursements recorded in MIP match what has been reported in the CDC online system. Any prior period adjustments made in MIP will show up as a variance. Identify and include any prior period adjustments in the current cash request.

## Cash Drawdown Policy – County CDC

3. Review the Cash Receipts and Cash Disbursements for each grant to identify any posting errors. Using the same MIP report, review to ensure all cash received and disbursed are properly coded to the grant. Correct any posting errors immediately.
4. Review the Expense postings for each grant. MIP report formats have been set up to facilitate the review as follows:
  1. Financial Statements
    - a. Statement of Revenue and Expenditures by Period-SA or MA
      - i. Set the period to the appropriate dates
      - ii. Review the expenditure posting – each subcontract should be reviewed to ensure it is being coded to the appropriate grant and is recorded in the appropriate period. Correct any posting errors immediately.
5. After completing the reviews noted in steps 2 and 3, generate the following reports in MIP for each grant code to complete each cash request:
  - a. Financial Statements
    - i. Statement of Revenue and Expenditures by Period-SA or MA
  - b. General Ledger Analysis
    - i. Normal Trial Balance
      1. Trial Balance by Contract-SA or MA
  - c. Journals
    - i. Cash Journal
      1. Cash Journal SA or MA
  - d. A/P Reports
    - i. A/P Summary
      1. Summary A/P by Grant-MA
6. The next step is to convert the accrual based expenditures to a cash basis.
7. Download the Statement of Revenue and Expenditures by period to Excel. The last column on the report should be the 'Total' column.
8. After this column add a column titled 'Accounts Payable'. Use the A/P Summary Report to list the amounts in A/P to the appropriate contract lines in the new column created.
9. Create another column to the far right titled 'Cash Basis Expenditures'
10. This column should contain a formula that subtracts the A/P items just entered from the accrual based total column.
11. Insert another column to the far right titled 'Advance Request'
12. This column should consist of the following:
  - a. Items currently listed in Accounts Payable (i.e., open posted accounts payable amounts)
  - b. Payroll & Administrative Advances based upon prior period actual amounts for payroll, benefits, rent, and other administrative expenditures to be posted and paid to the fund over the next month (where applicable).
  - c. Any necessary Programmatic Advances
13. Once reviewed, these reports can be used to prepare the current month cash request.
14. Once prepared, the draw requests are submitted to the CFO with all supporting documentation for approval.
  - a. Supporting Documentation Includes:
    - i. Reports listed in Step 5
    - ii. Copies of checks written since last cash request
15. Draw requests that are not approved will be returned to the Billing Coordinator for revision.
16. Once approved, draw requests will be sent electronically to the Deputy Director and the Executive Director for electronic approval.
17. A copy of all documentation is filed in a binder by Funding Source/Program.
18. An additional copy of the summary page for each draw request is filed to track the receivable.

## **Cash Drawdown Policy – County CDC**

- 19 The Billing Coordinator will keep a log of all open draw requests.



**Policy: Cash Drawdown Policy LA City ESG, CDBG, and General Funds – revised 2/06**

Submitted By : Stephen Andryszewski

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### **General:**

It is the Policy of LAHSA to drawdown cash receipts from funding sources on a timely basis to ensure timely payment of contractor invoices.

#### **Procedures:**

The City of Los Angeles Housing Department administers nineteen contracts under four different grant accounts for fiscal year 2005-2006

1. Two of these grants utilize City General Funds. The Grant codes used by LAHSA are 926 and 960, and are on a fiscal period July 1, 2005 – June 30, 2006;
2. ESG and CDBG contracts, on a fiscal period of April 1 – March 31, utilize one grant account each, separated into multiple contracts segregated by the GL Billing Code accounts, as follows
  - a. ESG Funding – LAHSA Grant 950

	LAHD Contract	LAHSA Grant	LAHSA Billing Code
i.	106639	950	639
ii.	106640	950	640
iii.	106641	950	641
iv.	106645	950	645
v.	106650	950	650
vi.	106651	950	651
vii.	106652	950	652
viii.	106653	950	653

- b. CDBG Funding – LAHSA Grant 951

	LAHD Contract	LAHSA Grant	LAHSA Billing Code
i.	106638	951	638
ii.	106642	951	642
iii.	106643	951	643
iv.	106644	951	644
v.	106646	951	646
vi.	106647	951	647
vii.	106648	951	648
viii.	106649	951	649
ix.	106654	951	654

3. All expenses and expenditures must be coded to the proper billing code, as the billing code drives the cash drawdown requests from the city.
    4. After posting all prior month invoices, reports must be run and reviewed to identify and correct any posting errors prior to preparing the City cash requests for the month

## Cash Drawdown Policy LAHD

### Procedures:

1. On Day 1 of month end, the Billing Coordinator will begin to roll forward cash requests.
  - a. Save prior month cash request as current month request
  - b. Ensure all formulas in spreadsheet have rolled forward properly
  - c. Update all information for current month
    - i. Dates covered
    - ii. Cash Received by contract
  - d. Communicate with Contracts and Grants to inquire about any revisions to current budgets
  - e. Update cash requests for all approved budget modifications

The accountant responsible for preparing the City LAHD Cash Request performs the following steps:

- a. Review the Cash Receipts and Cash Disbursements for each grant and each billing code. Use the MIP report
    1. Transaction Report
      - a. Cash Journal
        - i. Cash Dep & Disb by Billing Code\_MA
      - i. Set the period to the appropriate dates (note the start date for most City Contracts is 4/1/XX through 3/31/XX. Set the dates from 4/1/ (current year) to current date for which the cash report is billing through.
      - ii. Review to ensure that both deposits and disbursements have all been coded to the appropriate billing code. No expenditures should be reported to 'no billing code' or '999'. Correct any errors identified immediately.
    - b. Review the Expense postings for each grant and billing code. MIP report formats have been set up to facilitate the review as follows:
      1. Financial Statements
        - a. Combining Statement of Revenues and Expenditures
          - i. Combining Rev & Exp by Billing Code 950 (or 951)
        - i. Set the period to the appropriate dates
        - ii. Review the expenditure posting – each contract should be reviewed to ensure it is being coded to the appropriate city contract billing code; No expenditures should be posted to 'no billing code' or '999'. Correct any posting errors immediately.
5. After completing the reviews noted in steps 2 and 3, generate the following reports in MIP for each billing code to complete each cash request:
  - a. Financial Statements
    - i. Statement of Revenue and Expenditures by Period-SA or MA
  - b. General Ledger Analysis
    - i. Normal Trial Balance
      1. Trial Balance by Contract-SA or MA
  - c. Journals
    - i. Cash Journal
      1. Cash Journal SA or MA
6. Review these reports for expenditures out of period or expenditures over budget. Correct any posting errors immediately.
7. Once reviewed, these reports can be used to prepare the current month cash request.
8. Once prepared, the draw requests are submitted to the CFO with all supporting documentation for approval.
  - a. Supporting Documentation Includes:

## Cash Drawdown Policy LAHD

- i. Reports listed in Step 4
  - ii. Copies of checks written since last cash request
- 9. Draw requests that are not approved will be returned to the Billing Coordinator for revision.
- 10. Once approved, draw requests will be sent to the Deputy Director and the Executive Director for signature.
- 11. Signed originals with all applicable supporting documentation are sent the funding source.
- 12. A copy of all documentation is filed in a binder by Funding Source/Program.
- 13. An additional copy of the summary page for each draw request is filed to track the receivable.
- 14. The Billing Coordinator will keep a log of all open draw requests.





**Policy: Cash Drawdown Policy SHP – revised 2/06**

Submitted By : G. Michael Arnold, Interim CFO

Fiscal Department  
Fiscal Policies and Procedures

Approved:

Policy

**General:**

It is the Policy of LAHSA to drawdown cash receipts from funding sources on a timely basis to ensure timely payment of contractor invoices.

**Procedures:**

**Supportive Housing Program - HUD**

1. The Accounts Payable Clerk receives the approved invoice and
  - a. Pulls a copy of the Voucher for Request of Grant Funds from the invoice package, noting approval signatures from both the Program Accountant and the Chief Financial Officer or his/her designee (only original Voucher for Request of Grant Funds should be used for the drawdown process to avoid duplicate draws);
  - b. Requests funds from HUD, recording the contract, and the amount by line item electronically;
  - c. Requests without edits or exceptions are processed, logged in the daily log, and the invoice package is returned to the Program Accountant for posting in the general ledger;
  - d. Edits and exceptions are noted and referred to the appropriate Program Accountant for resolution.
  - e. Edits and exceptions must be resolved within 48 hours.
2. The Accounting Manager – Administration checks the cash accounts daily for electronic deposits from HUD and ensures deposits are posted



**Policy: Cash Receipts Policy – revised 2/06**

Submitted By : G. Michael Arnold, Interim CFO

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### General:


It is the policy of LAHSA that all funds received will be deposited in an approved bank account in a timely manner, and that all cash receipts will be entered into the general ledger with sufficient detail to ensure that funds received are only used for their intended purpose.

#### Procedures:

1. Incoming mail is opened and any receipts of cash or checks is listed on a daily log by the Clerical/Receptionist. The Clerical Receptionist is excluded from any access to accounts receivable information or records to ensure clear separation of duties.
2. Accounting staff with access to general ledger information or posting capabilities do not serve, even on a temporary basis, as relief for the Clerical Receptionist
3. The Clerical Receptionist, upon opening the mail performs the following procedures:
  - a. All receipts are logged in the daily log
  - b. Checks are immediately restrictively endorsed "for deposit only"
  - c. All items (except the check itself) are date stamped with the date received
  - d. An LAHSA Transfer Advice Ticket is completed documenting date check was received, check number, amount, Payor name, and the date of the transfer to the Financial Manager.
  - e. The Transfer Advice Ticket, checks and supporting documentation are bundled and immediately forwarded to the Financial Manager – Administration.
  - f. The Financial Manager – Administration completes the Transfer Advice Ticket information for the next step and transfers the documentation to the Accounts Payable Clerk who prepares a deposit slip and prepares a package for the messenger to take to the bank for deposit.
  - g. Checks are kept in a secured location in a locked file cabinet until time of bank deposit;
  - h. Deposits are made on a daily basis (as needed) by LAHSA messenger.
  - i. Upon confirmation of the deposit (the bank deposit slip acknowledgement), the deposit is coded for entry into the general ledger
    - i. The account coding for the cash receipt must include the following information:
      1. Fund
      2. Grant
      3. GL Account
      4. Program
      5. Agency
      6. Contract Number(s) the receipt relates to
      7. Other codes as appropriate (i.e., future code, etc.)

## Cash Receipts Policy

- j. The Financial Manager – Administration provides the cash receipts data (amount, date, Payor, and MIP coding detail) to the CFO for review and approval for posting
- k. The CFO reviews the cash receipts data and indicates approval for posting
- l. The Financial Manager – Administration posts the deposits; the effective date used is the same date as the actual deposit to simplify the account reconciliation process.
- m. Post dated checks, disputed items, unidentified receipts, NSF checks, checks charged back by banks, and similar items are received and reviewed by the CFO, who is independent of preparation of deposits and is not authorized for posting of cash receipts or receivables.

	<b>Policy: Cash Reconciliation Policy – revised 2/06</b>
Fiscal Department Fiscal Policies and Procedures	Submitted By : G. Michael Arnold, Interim CFO  Approved:

### Policy

#### **General:**

It is the Policy of LAHSA to reconcile bank cash accounts and investigate and resolve questioned or suspense items on a timely basis.

#### **Procedures:**

1. The Financial Manager – Administration reconciles bank accounts within 15 days after the end of each month, or after the receipt of the bank statement.
2. Bank statements are received by the CFO unopened from the bank.
  - a. CFO reviews any enclosed cancelled checks for proper signatures, alterations of amounts or payees, irregular endorsements, and large or unusual amounts.
  - b. CFO reviews the bank statement for unusual transfers, debits or credit transactions.
  - c. CFO documents his/her review by initialing and dating the bank statement, and forwards to the Financial Manager – Administration for reconciliation.
3. The Financial Manager – Administration reconciles the deposits through the following procedures:
  - a. Dates and amounts of daily deposits on the bank statements are compared to the cash receipts journal
  - b. Bank transfers are reviewed to ensure that the transfer was appropriate and approved and that both sides of the transfer are properly reflected in the general ledger
  - c. Rejected items are investigated and documented.
  - d. An exception report is provided to the CFO for unresolved items.
4. The Financial Manager – Administration reconciles the disbursements through the following procedures:
  - a. Cancelled checks are compared with the cash disbursements journal, noting agreement as to number, date, payee, and amount;
  - b. All check numbers are accounted for;
  - c. Cancelled checks are examined for authorized signatures, irregular endorsements or alterations
  - d. All voided checks are accounted for
  - e. An exception report on unusual or unreconciled items is provided to the CFO
5. All questioned or unresolved items must be investigated and resolved within 15 days
6. The CFO reviews and initials and dates the bank reconciliation.

## Cash Reconciliation Policy

7. The Financial Manager – Administration identifies checks outstanding for over 90 days on quarterly basis and notifies Program Accountants to follow-up with the payee. Checks are reissued only after a stop payment request is communicated to the bank.
8. Upon confirmation of a stop payment on a check, the check is voided in the cash disbursements journal and a new check may be reissued.



**Policy: Expenditure Review and Reclassification Policy  
– Accounts Payable – revised 2/06**

Submitted By : Stephen Andryszewski

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### General:

It is the policy of LAHSA to analyze expenditures entered into the general ledger to ensure the proper coding by Funding Source, Program and Contract and to promptly correct errors when detected.

#### Procedures:

1. On a monthly basis the Billing Coordinator analyzes General Ledger reports and compares the expenditures to budget amounts set forth by each subrecipient contract. The Billing Coordinator will complete the analysis process with adequate time to allow any discrepancies to be corrected by the Program Accountants to ensure billing requests are processed by the 15<sup>th</sup> of each month.
2. All discrepancies to budgeted amounts, including over budget amounts and coding errors, are kept in a written log by the Billing Coordinator and reported in writing, i.e., memo or email form, to the CFO and to the responsible Program accountant within 24 hours of identification.
3. The Program Accountants will investigate discrepancies to:
  - a. Identify proper funding sources and coding for each discrepancy.
  - b. Determine whether the expenditure is still in Accounts Payable or has been paid.
  - c. Identify why the error occurred.
4. Once a proper funding source has been identified, the Program Accountant will research the document number and determine if the expenditure is still in Accounts Payable or has been paid. Reclassification and correction of the error where expenditures are unpaid and still in Accounts Payable (i.e., have not cleared accounts payable) will follow the procedure in 4.a. below; those expenditures that have been paid and are no longer in Accounts Payable will follow the procedure in 4.b.
  - a. Procedure for reclassifying expenditures in Accounts Payable.
    - i. Identify the subrecipient, session ID and the document number for each discrepancy.
    - ii. In MIP go to Transactions>Enter A/P Invoices and create a new session.
    - iii. Select Copy Posted Document and enter the session ID and the document number from the original transaction.
    - iv. You will be asked if you would like to use the effective date of the original document. If the period of the original document has not been closed, use the original document date. If the period has been closed use the first date of the next open period.

## Expenditure Review and Reclassification Policy

- v. The original document will appear on screen to be modified (A warning will appear on screen to notify you that any changes made will alter the original document). Please note that the adjusting entries must cancel out the original transaction and enter new data. If you only enter in new data, the original entry will not be corrected.
  - 1 Example: The original entry is to subrecipient ABC in the amount of \$1,000 for services provided to funding source 123, but the correct funding source for the services should be 456

Original coding:

Fund	Grant	GL	Agency	Contract	Program	Debit	Credit
200	123	6121	999	XXXXXXXXXX	999	1,000	
200	123	2000	999	XXXXXXXXXX	999		1,000

Correcting Entry:

Fund	Grant	GL	Agency	Contract	Program	Debit	Credit
200	123	2000	999	XXXXXXXXXX	999	1,000	
200	123	6121	999	XXXXXXXXXX	999		1,000
200	456	6121	999	XXXXXXXXXX	999	1,000	
200	456	2000	999	XXXXXXXXXX	999		1,000

- vi. Review and post the entry, then GL run reports to verify the entry posted correctly.

**As an alternative to procedure 4.a., the program accountant may also:**

- 1 Reverse the original batch using the original batch ID with an "R" at the end.
- 2 Create a copy of the original batch using the original batch ID with a "C" at the end
- 3 Make any necessary adjustments to the copy just created, i.e., enter the expense and accounts payable to the appropriate fund.
- 4 Post the corrected batch

**In all cases, the transaction description must clearly state the purpose of the reversal and the posting of the new entries. Each entry must be able to 'stand alone' in the clarity of the description of the entry. For example, do not use the description "to correct error"; rather use a full description, like "To correct misposting of 11/05 (agency or contract) expenses from grant 123 to 456".**

- b Procedure for reclassifying expenditures where the accounts payable amount has been paid.
  - i. Identify the date of the expense and the date of the cash disbursement.
  - ii. In MIP go to Transactions>Enter Journal Vouchers and create a new session.
  - iii. The correcting entry will credit the expense and debit the cash in the incorrect funding source and debit the expense and credit the cash in the correct funding source. Use the expenditure date to record the correcting entry.
    - 1 Using the previous example:

Original entry:

Accounts Payable Entry when entered:

Fund	Grant	GL	Agency	Contract	Prog.	Debit	Credit	Effective Date
200	123	6121	999	XXXXX	XXX	1,000		6/15/2005
200	123	2000	999	XXXXX	XXX		1,000	6/15/2005

## Expenditure Review and Reclassification Policy

Original Cash Disbursements Entry when paid:

Fund	Grant	GL	Agency	Contract	Prog	Debit	Credit	Effective Date
200	123	2000	999	XXXXX	XXX	1,000		6/30/2005
200	123	1002	999	XXXXX	XXX		1,000	6/30/2005

Since cash was used to clear the accounts payable, corresponding corrections to cash and the expenditures are required to correct the original entries. Correcting the accounts payable entry will result in an active accounts payable on the correct grant, and a debit accounts payable balance in the original grant and will not reflect the correct cash balances in either grant.

Correcting Entry:

Fund	Grant	GL	Agency	Contract	Prog	Debit	Credit	Effective Date
200	123	1002	999	XXXXX	XXX	1,000		6/30/2005
200	123	6121	999	XXXXX	XXX		1,000	6/15/2005
200	456	6121	999	XXXXX	XXX	1,000		6/15/2005
200	456	1002	999	XXXXX	XXX		1,000	6/30/2005

- iv Review and post the entry, then GL run reports to verify the entry posted correctly.

**Ensure the transaction description is detailed to fully describe the entry. For example: To move paid 11/05 expenditures for (agency/contract) from grant 123 to grant 456 to correct posting error.**

- 5 All expenditures relating to LAHSA administration costs will be forwarded to the Accounting Manager to be corrected according to the procedures outlined above.
6. The Program Accountant will analyze the error, and make any corrections in the system within 48 hours of notification. The Program Accountant will notify the CFO and the Billing Coordinator of the correction when completed in writing (i.e., memo or email).
- 7 The Billing Coordinator will note in the error log the date of the response and indicate that the error correction process has been closed requiring no further work.
8. The Billing Coordinator will review with the CFO by the 15<sup>th</sup> of the month any uncleared items on the log





**Policy: Interest Income – revised 2/06**

Submitted By : G Michael Arnold, Interim CFO

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### **General:**

It is the policy of LAHSA to distribute Interest earned on a monthly basis to the appropriate grant accounts, and to repay interest when required under the granting agency or federal regulations to the appropriate agencies on a quarterly basis or in compliance with the granting agency's requirements, whichever occurs first.

#### **Procedures:**

1. The recognition of interest income generally occurs with the cash bank account reconciliation process once the interest for the month has been posted to the cash accounts
2. The allocation methodology adopted by LAHSA is to distribute interest income based on deposits received under each grant for the month the interest has been earned.
3. The accountant responsible for the bank reconciliation will complete the bank reconciliation and prepare the journal entry to record interest income by grant for the month. The effective date for the journal entry will be the last day of the month for which the interest was earned.
4. Deposits recorded in the general ledger will be exported into an excel spreadsheet and used to create an allocation model.
  - a. From the Reports Menu in MIP
    - i. Go to Transactions – Journals – Cash Journal
    - ii. Select the report Cash Deposits for Interest Distribution\_MA
    - iii. Change the dates for the month for which interest is to be distributed
    - iv. Download the report generated into an excel spreadsheet and create the % each grant's total deposits represent of the total deposits for the month
    - v. Enter the interest earned for the month and distribute based on the allocations created in iv. Above. (See attached example)
    - vi. Prepare a journal entry to record interest by debiting cash and crediting interest income for each grant affected by the interest income
5. Quarterly, prepare an accounts payable voucher to repay interest earned for the quarter back to the funding agency, as required
6. For agencies where repayment is not required (City and County general funds), coordinate reprogramming of the interest earned with the appropriate agency on a semi-annual basis.



**Policy: Policy for Using County General Funds under Temporary Agreement – revised 1/06**

Submitted By : G. Michael Arnold, Interim CFO

Fiscal Department  
Fiscal Policies and Procedures

Approved:

### Policy

#### **General:**

**Effective Date: January 10, 2006**

1. LAHSA will only use County General Funds for uses approved by the CAO's office (see attached memo). Approved uses include:
  - a. Payroll and related benefit costs
  - b. Essential operating costs such as rent, phone and the like

Cash will be repaid to the County General Fund grant account as soon as cash is received from the borrowing grant funding source

#### **Approval Levels:**

Use of County General Funds under this Policy and set of Procedures requires the following approvals:

\$0-50,000, single payee and \$100,000 cumulative use of County General Funds – CFO Approval

Over \$50,000 to 200,000, single payee, and over \$100,000 to \$250,000 cumulative use – CFO and Executive Director

Over \$200,000 single payee, and over \$250,000 cumulative use – CFO, Executive Director, and Chair, Finance, Contracts and Grants Committee.

Cumulative use will be equal to aggregate amount of all grants balance in Acct. 2199, Due to Credit Line at any time.

#### **Reporting and Monitoring:**

Monthly use of County General Funds under this policy and procedures will be reported to the Finance, Contracts and Grants Committee.

Any grant where funds are not drawn to replenish the borrowed funds within 30 days will be reported to the Finance, Contracts and Grants Committee.

**Procedures:**


1. Prior to each check run (including payroll), a MIP report on "Invoices selected for Payment" will be prepared organizing the cash disbursements by Grant Code
2. The Cash Monitoring/Check Run Report will be prepared as follows:
  - a. Current (as of current date) cash balance will be entered by grant
  - b. Cash requirements to fund the check run will be entered into the check run column by grant number;
  - c. Any necessary cushions or encumbrances will be entered into the Payroll and Other Cushion columns
  - d. Ending cash balances will be reviewed
  - e. Any deficit cash balances will be corrected by generating a journal entry to borrow funds from the County General Funds grant
    - i. Borrowing Grant
      1. Debit Cash for the amount required
      2. Credit Due To Credit Line Acct. 2199
    - ii. Lending Grant
      1. Debit Due From Grant (code borrowing grant in the contract field as a four digit code – i.e., grant 916 would be D916) Acct. 1199
      2. Credit cash using the same coding in the contract field – i.e., a four digit number representing D plus the grant number)

The journal entry should be entered into MIP in an unposted batch, and a copy of the unposted journal entry must be reviewed and approved in writing pursuant to the approval levels noted in this policy prior to posting. The approved journal entry form and a copy of the approved check run report attached must be retained for a period of one year after the end of the current fiscal year.

**Procedures – Repayment of Borrowed County General Funds**

1. Upon receipt of cash from grant funding source, prepare deposit and deposit in grant and in bank as usual
2. Run a Normal Trial Balance and review to see if there is any balance in Account 2199 – Due to Credit Line
3. If there is a balance in the Due to Credit Line, prepare a journal entry to repay the County General Fund account to extent cash is available in the borrowing grant:
  - a. Lending Grant (County General Fund)
    - i. Debit Cash (code cash receipts from the borrowing grant in the contract field as a four digit code – i.e., grant 916 would be coded D916 in contract code)
    - ii. Credit Due From Grant Acct. 1199 (code borrowing grant in contract field as a four digit code – i.e., grant 916 would be D916)
  - b. Borrowing Grant
    - i. Credit Cash
    - ii. Debit Due to Credit Line Acct. 2199

At month end, run a Normal Trial Balance on the Due to and Due from accounts and reconcile to ensure all Due To's and All Due From's are recorded.

	<b>Policy: Winter Shelter Program Advances Policy – revised 2/06</b>
Fiscal Department Fiscal Policies and Procedures	Submitted By : G Michael Arnold  Approved:

## Policy

### **General:**

It is the policy of LAHSA to provide appropriate working capital to subrecipients providing services to the populations served by LAHSA to the extent allowed by the funding sources. For the Winter Shelter Program, the following policies will apply.

1. Winter Shelter Program subrecipients may request an advance of one month's expenses, providing the funding source for the contract allows such advances. For purposes of determining the advance amount, the contract amount (amount to be paid through LAHSA over the contract period) divided by 3.5 (the number of months in the program).
2. An advance request must be received by LAHSA by the 10<sup>th</sup> day of the month preceding the start of the program.
3. Advances are only requested after a fully executed contract has been received; no advance requests will be made on behalf of subrecipients who have not executed a contract and provided an advance request by the 10<sup>th</sup> day of the month preceding the start of the program.
4. Advances will start to be reconciled to expenses starting with the January (2<sup>nd</sup> month) expense reimbursement submission to ensure adequate time is left on the contract to avoid overpayment to a subrecipient during the contract period.

### **Procedures:**

1. LAHSA staff will complete the contracting process with adequate time to allow for execution of the contracts with subrecipients and the generation of advance requests from the subrecipients to be received by LAHSA by the 10<sup>th</sup> day of the month preceding the contract start date.
2. The advance request from the subrecipient cannot exceed the total contract amount divided by 3.5. The Program Accountant will test the advance request and distribute the request to the appropriate funding sources, ensuring each funding source allows advances to providers. If a funding source does not allow an advance to the subrecipient, the advance request will be reduced by the percentage of the total contract funded by the funding source that does not allow an advance.
  - a. Example: Subrecipient X requests a \$100,000 advance, and the total Contract amount is \$350,000. The Program Accountant first computes the maximum advance  $(\$350,000/3.5) = \$100,000$ . The Program Accountant then evaluates the funding sources for the Contract – if all funding sources allow advance payments, the entire \$100,000 can be authorized for payment as an advance. If, however, one funding source providing \$50,000 does not allow advance payments, the \$100,000 is adjusted as follows: Total funding \$350,000 – amount not allowing advances \$50,000.  $\$50,000/\$350,000 = 14\%$  100% less 14% = 86%. The allowable advance is  $\$100,000 \times 86\%$ , or \$86,000.

## Winter Shelter Program Advances Policy

3. A subrecipient can request an additional one-month advance (amount to be allowed calculated as in 2. above) for the second month of the program by the 10<sup>th</sup> day of month one of the program. This ensures the subrecipient will have adequate cash on hand to pay current invoices since the subrecipient will not be able to submit their invoices for the first month until the 10<sup>th</sup> day of the 2<sup>nd</sup> month of the program. The second advance will be requested from the funding sources provided the request is received by the 10<sup>th</sup> of the month for payment on the first of the following month.
4. No additional advances can be processed. After the second advance is processed, the subrecipient must submit their actual expenses on the approved invoice form and format by the 10<sup>th</sup> day of the following month, and the invoice will be processed and payment to the subrecipient will occur by the 1<sup>st</sup> of the following month.
5. Advance reconciliations will start with the second month's invoice processing. Since the program is a 3.5 month program, the reconciliation process will be as follows:
  - a. Month 2 expenses will be divided by 2. The total advances will be divided by 4 (to break into half-months.)
  - b. 50% of the second month's invoice will be paid without reconciliation.
  - c. 50% of the second month's invoice will be offset by ¼ of the total advances received.
  - d. Month 3 expenses will be reconciled with ½ of the total advance received.
  - e. Partial (1/2) month 4 expenses will be reconciled with any remaining subcontractor advance amount (should be approx. ¼ of the total advance received).
  - f. As the amounts are reconciled, the advance is adjusted by crediting the subcontractor advance account for the contract, and debiting the accounts payable invoice for the amount of the advance received from the subcontractor advance account for that contract.

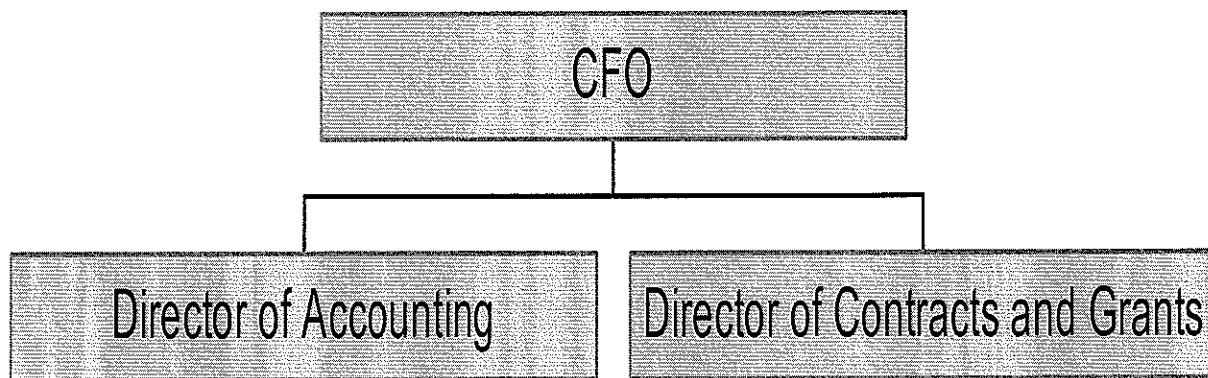
This process ensures the advance is fully reconciled against expenses prior to the end of the contract period.

6. Any amount due from the subrecipient will be promptly billed by the Program Accountant, and booked as an accounts receivable in the general ledger. An amount receivable would only exist if a balance remained in the subcontractor advance account for the contract (i.e., expenses for the last 4 half month periods were less than the amounts advanced to the contractor.) The journal entry to record the receivable would be:
  - a. Debit Accounts Receivable
  - b. Credit Subcontractor AdvancesThe journal entry coding should be complete and include grant, program (if any), GL account, agency, and contract.

## ATTACHMENT B

### RECOMMENDED FISCAL AND CONTRACTS ORGANIZATIONAL STRUCTURE

# CFO Direct Reports



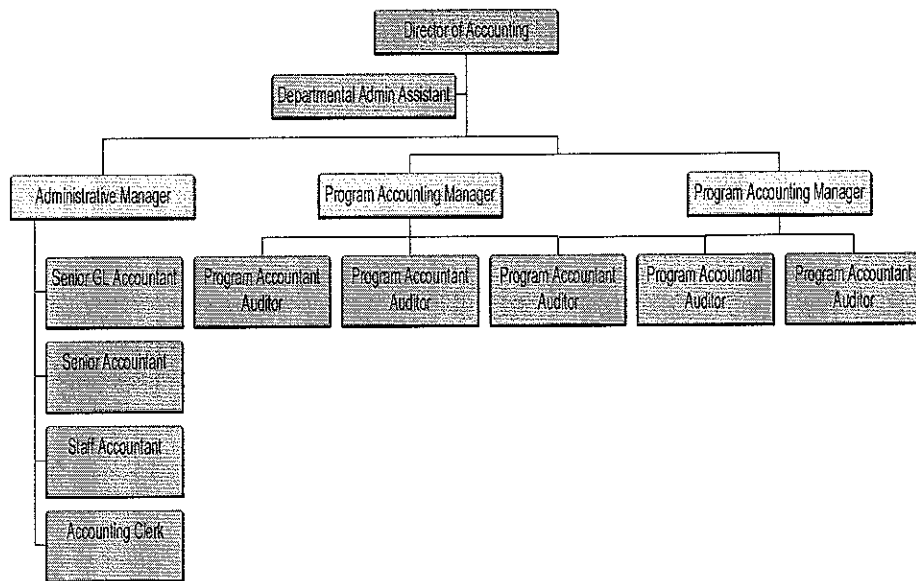
Estimated staffing requirements:

Chief Financial Officer	1
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Finance Full Time Equivalents:	14
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Contract Admin. Full Time Equivalents:	16
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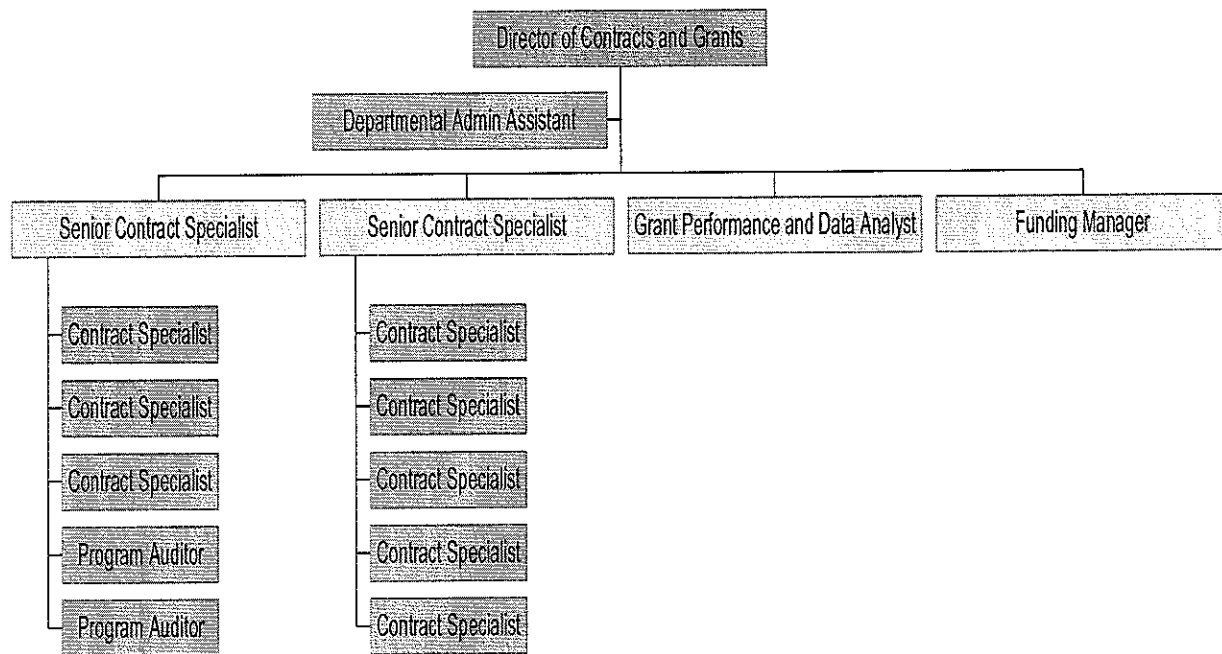
# Accounting



Proposed FTE  
Requirements: 14 (includes  
Director of Accounting)



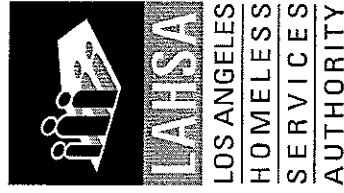
# Contracts and Grants



Current FTE Requirements:16  
(includes Director of Contracts and  
Grants)

## ATTACHMENT C

### PROPOSAL TO A LINE OF CREDIT FACILITY



# Proposal to Establish a Line Of Credit Facility to Meet Short Term Cash Flow Requirements

For The  
Los Angeles Homeless Services  
Authority



# Proposal to Establish a Line of Credit Facility for LAHSA

- The Problem
  - Each funding source has specific and unique requirements related to both the cash request (drawdown) process and the Advance request process
  - Both LAHSA direct (payroll and related) and subcontractor cash requirements can vary significantly by grant from month to month
    - Time spent by directly assigned personnel can change by 100% per pay period
    - Contractors may submit invoices or multiple months invoices after the monthly cash request has been completed
  - Most non-SHP funding sources provide for a one-time per month opportunity to request cash



# Proposal to Establish a Line of Credit Facility for LAHSA

- The Problem (continued)
  - Program cash requirements create significant and often impossible timing issues
    - Need to provide advances by the first day of month;
    - Need to wait to submit cash requests until provider invoices have been submitted and reviewed
  - Staffing shortages at both LAHSA and the funding agency may delay processing of cash requests and the subsequent timing of the receipt of cash
    - Delay in receipt of cash may jeopardize ability of LAHSA to meet payroll, or create significant hardship on Homeless Service Providers



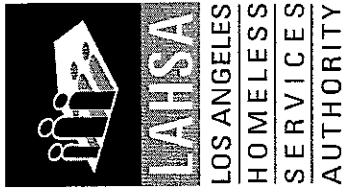
# Proposal to Establish a Line of Credit Facility for LAHSA

- The result is lack of available cash to pay either essential LAHSA expenses (payroll, benefits, rent, telephone) or Service Providers to avert major service interruptions. This in turn results in:
  - Fire drills to process special cash requests from various agencies
  - Loss of internal staff morale due to inability to pay employees or reimburse them for allowable expenses
  - Creates irregular, unrealistic and un-necessary workloads for LAHSA finance staff
  - Bad will and bad feelings between service providers, LAHSA, and funding agencies as each tries to manage the complex requirements, timetables, and reporting requirements of the others



# Proposal to Establish a Line of Credit Facility for LAHSA

- Example
  - Payroll requirements for Friday payroll will exceed cash available in grant XXXX. The funding source expects to process and pay on a pending cash request by Monday; however, actual cash deduction from bank will occur on Friday, two days before the cash is received from funding agency
  - Current solution would be to move expenditures to grant with funding that can be used to pay for expenses, or not pay employees on grant with inadequate cash balances



# Proposal to Establish a Line of Credit Facility for LAHSA

- Example
  - Large invoice was not received by LAHSA by cut-off date to submit to funding source for cash draw
    - Service provider would currently need to wait until next cash request was processed (potentially another 30 days), or
    - Special cash request would need to be requested and processed by funding agency (fire drill process)



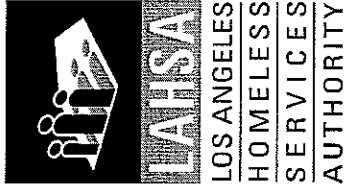


# Proposal to Establish a Line of Credit Facility for LAHSA

- **Proposed Solution:** Establish a rapidly accessible flexible funding source that will serve as a ‘Line of Credit’ for LAHSA to use to meet short term cash flow requirements by Feb. 1, 2006
  - Rapid access is essential – LAHSA should have the ability to draw on within 24-48 hour period
  - Amount should be adequate to meet occasional high dollar amount needs

# Proposal to Establish Line of Credit Facility for LAHSA

- Proposed amount of initial Line of Credit Facility
  - \$1,000,000 (represents approx. 14 days of non-SHP Cash Needs)
    - \$500,000 from County
    - \$500,000 from City
  - Facility would need to be from flexible funds – no programmatic restrictions on use (i.e., not CDBG or ESG funds that can only be used on specific types of expenditures, etc.)
  - Would be used to ‘loan’ cash to grants to ensure such grants do not go into a deficit position, and ensures no inappropriate use of other grants’ cash.
  - Each transaction would be carefully tracked through use of “Due To” and “Due From” accounts
  - Borrowed cash would be repaid as soon as cash is recovered from borrowing grant’s funding source



# Proposal to Establish Line of Credit Facility for LAHSA

- Procedures

- All existing procedures that ensure payments are made only on executed contracts and for allowable costs will be followed;
- Prior to each check run, a comparison of cash requirements and cash available balance will be calculated
  - If adequate cash is available to support check run (including payroll), no action is required
  - If inadequate cash is available to support check run (including payroll), the difference between the available cash balance and cash requirements for the check run will be computed;
    - Journal entry will be prepared for the additional cash required
      - Record increase in cash to fund check run, and record increase in “due to LAHSA Credit Facility” in grant borrowing funds
    - Record decrease in cash balance in LAHSA Credit Facility account, and record Account Receivable from borrowing grant



# Proposal to Establish Line of Credit Facility for LAHSA

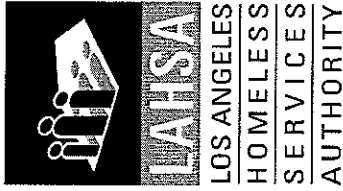
- Procedures

- When a grant with a “Due to LAHSA Credit Facility” balance receives cash from the grant source, the Credit Facility account will be reimbursed
  - Journal entry will be prepared
    - Record decrease in cash, and record decrease in “due to LAHSA Credit Facility” in grant borrowing funds
    - Record increase in cash balance in LAHSA Credit Facility account, and reduce Account Receivable from borrowing grant



# Proposal to Establish Line of Credit Facility for LAHSA

- Approvals Required for Use of Line of Credit
  - \$0-100,000 single payee, and up to \$250,000 total –all payees– CFO
  - Over \$100,000 to \$350,000 single Payee or \$250,000 - \$500,000 total – all payees - CFO and Exec Dir (ED)
  - Over \$350,000 single payee or over \$500,000 – all payee’s – CFO, ED and Chair, Board of Commissioner’s Finance, Contract and Grants Management Committee



# Proposal to Establish Line of Credit Facility for LAHSA

- Monitoring

- Monthly - Any instance of use of the line of credit funding where cash has not been recovered from the funding agency within 30 days will be reported to the Board of Commissioner's Finance, Contracts and Grants Mgmt Committee monthly;
- Quarterly – A quarterly report will be provided to the Board of Commissioner's Finance, Contracts and Grants Mgmt Committee detailing by month the amount of Line of Credit used each month, highest outstanding balance, average length of time to repayment, and a summary of any grants utilizing the line of credit where repayment was not made within 30 days during the period;
- Annually – An annual report summarizing the quarterly reports data, and the CFO's assessment of a. the adequacy of the Line of Credit amounts, b. The adequacy and appropriateness of current approval levels, and recommendations for Board Approval for any proposed changes.